Strategic Response of Airlines to Industry's Five Competitive Forces

By

Bilal R. Ahmad

12002001006

Student, Aviation Management

Research Supervisor

Irfan U. Kausar

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Table of Contents

Abstract:

Strategy is about choosing a unique and valuable position, making trade-offs and creating a strategic fit among various activities that are being done in an organization. This paper will focus exclusively on first part of above mentioned definition of strategy. Porter's Five Forces Model is used as a tool to analyze the external environment of airline industry. This Five Forces Model includes threat of new entrants, bargaining power of buyer, bargaining power of supplier, threat of substitute offerings and rivalry among incumbents.

Throughout this study, these forces are analyzed and strategies are developed to offset these forces while keeping airline industry in focus. Strength of entry barriers, airline' cost of switching, passengers' cost of switching, threat of forward integration from aircraft manufacturers, level of information, passengers' price sensitivity, presence of substitutes to airlines, height of exit barriers and level of differentiation among airlines' services are the determinants used in his study to understand and analyze the strength of five competitive forces relative to airline industry.With the help of theory, this study will explain the airlines' micro external environment by using Porter's Competitive Forces, the relative strength of these forces, strategies that can be formulated to exploit these forces and place the business where these forces are weak i.e. to carve a strategic position that is more profitable and less susceptible to imitation. In the last section, a suitable business model is developed considering Porter's Five Competitive Forces and appropriate strategies are suggested to deal with these forces.